

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 /088 W

----- 055110

R 071622Z MAY 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC 0975

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. BALANCE OF PAYMENTS FOR FIRST HALF OF APRIL REGISTERED SURPLUS OF \$187.6 MILLION. 1975 BALANCE OF PAYMENTS THROUGH FIRST THREE AND ONE-HALF MONTHS SHOWED \$36.6 MILLION CUMULATIVE SURPLUS. NET MARKET INTERVENTION DURING APRIL WAS LIMITED OFFICIAL USE

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APPROXIMATELY PLUS \$500.0 MILLION. BALANCE OF PAYMENTS FOR

ENTIRE MONTH OF APRIL MAY HAVE BEEN IN SURPLUS BY ABOUT \$150 TO \$200 MILLION. IN FIRST QUARTER 1975 ITALIAN IMPORTS WERE DOWN ABOUT 21 PERCENT IN VOLUME AND EXPORTS WERE DOWN 6 PERCENT IN VOLUME ACCORDING TO BANK OF ITALY. END SUMMARY.

2. MONETARY MOVEMENTS DATA FOR APRIL 1 THROUGH APRIL 15 RECORDED SURPLUS OF \$187.6 MILLION. CHANGES IN RESERVES DURING MONTH WERE INCREASE IN BOI CONVERTIBLE CURRENCY HOLDINGS OF \$202.3 MILLION, INCREASE IN COMMERCIAL BANKS' NET FOREIGN LIABILITIES BY \$22.7 MILLION, INCREASE IN BOI SHORT-TERM LIABILITIES BY \$23.2 MILLION, DECREASE IN BOI MEDIUM- AND LONG-TERM LIABILITIES BY \$32.9 MILLION AND DECREASE IN BOI'S SDR HOLDINGS BY \$1.7 MILLION. (INTEREST PAID ON ITALY'S FOREIGN DEBT IN FIRST HALF APRIL TOTALLED \$39.2 MILLION.) DURING FIRST HALF APRIL IMI MADE \$100 MILLION REPAYMENT ON 1972 EURO-MARKET LOAN. (AN ADDITIONAL \$150 MILLION WAS REPAID ON THIS LOAN IN THE LAST HALF OF APRIL.)

3. EXCHANGE MARKET INTERVENTION DURING FIRST HALF APRIL RESULTED IN NET GAIN OF \$325.0 MILLION. HOWEVER, ERCOLANI, HEAD OF BOI FOREIGN EXCHANGE OPERATIONS, SAID THAT FOR ALL OF APRIL NET MARKET INTERVENTION WAS APPROXIMATELY PLUS \$500.0 MILLION. ON MAY 2, BOI HAD NET PURCHASES OF APPROXIMATELY \$50 MILLION FROM EXCHANGE MARKET; ON MAY 5 PURCHASES AND SALES WERE IN VIRTUAL BALANCE; AND ON MAY 6 BOI HAD NET SALES OF \$30 MILLION, FOR NET PURCHASES MAY 1-6 OF ABOUT \$20 MILLION.

4. BALANCE OF PAYMENTS CUMULATIVE SURPLUS FOR FIRST THREE AND ONE-HALF MONTHS OF 1975 OF \$36.6 MILLION WAS FINANCED BY INCREASE IN BOI FOREIGN EXCHANGE ASSETS OF \$0.3 MILLION, DECREASE IN SDR HOLDINGS OF \$15.0 MILLION, DECREASE IN BOI MEDIUM-AND LONG-TERM LIABILITIES OF \$114.7 MILLION, AND INCREASE IN NET SHORT-TERM BORROWINGS OF COMMERCIAL BANKS OF \$43.8 MILLION. WHILE DATA ARE NOT YET AVAILABLE FOR MONTH OF APRIL, FIGURES FOR MAJOR TRANSACTIONS AFFECTING MONETARY MOVEMENTS WHICH MEASURE SIZE OF TOTAL BALANCE OF PAYMENTS SURPLUS OR DEFICIT SUGGEST THAT THERE MAY HAVE BEEN OVERALL SURPLUS IN RANGE OF \$150-200 MILLION.

5. ERCOLANI INDICATED THAT BOI RESEARCH OFFICE HAS MADE RELIMITED OFFICIAL USE

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VIEWED FORECASTS FOR 1975 CURRENT ACCOUNT DEFICIT IN RANGE \$0.8 BILLION TO \$3.2 BILLION, ASSUMING VARIOUS COMBINATIONS OF TRADE VOLUMES AND PRICES. ACCORDING TO BOI ESTIMATE, IN FIRST QUARTER 1975 ITALIAN IMPORTS WERE DOWN 21 PERCENT IN VOLUME TERMS COMPARED TO THE SAME 1974 PERIOD, WHILE ITALIAN EXPORTS WERE DOWN A MUCH SMALLER 6 PERCENT IN VOLUME TERMS.

6. FOLLOWING TABLE PRESENTS ROUGH EMBASSY ESTIMATE OF BREAK-

DOWN OF BALANCE OF PAYMENTS FOR FIRST QUARTER 1975. IT IS ON AN ADJUSTED PAYMENTS BASIS, I.E., INCLUDING CUSTOMS DATA FOR TRADE FIGURES WITH IMPORTS ROUGHLY REDUCED FROM C.I.F. TO F.O.B. BASIS. (ALL FIGURES IN MILLIONS OF DOLLARS.)

	JAN	FEB	MAR	QUARTER
TRADE	-323	138	-87	-272
OF WHICH: OIL	-546	-413	-634	-1,593
NON-OIL	223	551	547	1,321
SERVICES/CAPITAL	76	-158	203	121
DEFICIT/SURPLUS	-247	-20	116	-151

MAIN AREAS OF IMPROVEMENT IN BALANCE OF PAYMENTS HAVE BEEN SHARP REDUCTION IN TRADE DEFICIT, WITH LARGE SURPLUS ON NON-OIL TRADE ACCOUNT, AND APPARENT MODEST SURPLUS (RATHER THAN HABITUAL DEFICIT) ON CAPITAL ACCOUNT. UNUSUAL SURPLUS ON TRADE ACCOUNT IN FEBRUARY REFLECTED INVENTORY ADJUSTMENT AND LOW LEVEL OF INDUSTRIAL PRODUCTION.

7. ON MAY 6, FOLLOWING FINANCIAL RATES PREVAILED: LIRA EXCHANGE RATE WAS 630.525 LIRE PER DOLLAR, THREE-MONTH FORWARD RATE WAS 638.025 LIRE PER DOLLAR, WEIGHTED AVERAGE DEVALUATION OF LIRA, ACCORDING TO BOI INDEX, WAS 20.90 PERCENT COMPARED TO FEBRUARY 9, 1973 BASE PERIOD, BLACK MARKET RATE IN MILAN WAS 635 LIRE PER DOLLAR, THREE-MONTH EUROLIRA INTEREST RATE WAS 11 PERCENT, LIRA INTERBANK FORTY-EIGHT HOUR RATE WAS 10.0675 PERCENT AND LIRA INTERBANK THREE-MONTH RATE WAS 10.8375 PERCENT. VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 07 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ROME06620
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750160-0840
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750573/aaaacoso.tel
Line Count: 142
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 10 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 APR 2003 by Izenbel0>; APPROVED <16 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN EXCHANGE MARKET DEVELOPMENTS
TAGS: AFIN, IT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006